19 November 2018

# Joint Stock Company 'Halyk Savings Bank of Kazakhstan'

# Consolidated financial results for the nine months and third quarter ended 30 September 2018

Joint Stock Company 'Halyk Savings Bank of Kazakhstan' and its subsidiaries (together "the Bank") (LSE: HSBK) releases its condensed interim consolidated financial information for the nine months and third quarter ended 30 September 2018.

## Statement of profit or loss review

KZT mln

| | 3Q 2018 | 2Q 2018 | Change, abs | Y-o-Y, % |
|---|---|---|---|---|
| *Interest income* | *167,867* | *172,734* | *-4,867* | *-2.8%* |
| *Interest expense* | *-83,044* | *-82,713* | *-331* | *0.4%* |
| **Net interest income before impairment charge** | ***84,823*** | ***90,021*** | ***-5,198*** | ***-5.8%*** |
| *Fee and commission income* | *29,350* | *28,012* | *1,338* | *4.8%* |
| *Fee and commission expense* | *-10,199* | *-8,293* | *-1,906* | *23.0%* |
| **Net fee and commission income** | ***19,151*** | ***19,719*** | ***-568*** | ***-2.9%*** |
| Insurance income(1) | *1,199* | *1,496* | *-297* | *-19.9%* |
| FX operations(2) | *-31,992* | *-60,487* | *28,495* | *-47.1%* |
| Income from derivative operations and securities (3) | *56,156* | *74,269* | *-18,113* | *-24.4%* |
| Other income | *2,398* | *8,970* | *-6,572* | *-73.3%* |
| Credit loss expense (4) | *-8,266* | *-17,679* | *9,413* | *-53.2%* |
| Recoveries of other credit loss expense | *698* | *992* | *-294* | *-29.6%* |
| Operating expenses (5) | *-35,271* | *-64,964* | *29,693* | *-45.7%* |
| Income before income tax expense | *88,896* | *52,337* | *36,559* | *69.9%* |
| Income tax expense | *-10,947* | *-47,038* | *36,091* | *-76.7%* |
| Income after income tax expense | *77,949* | *5,299* | *72,650* | *14.7x* |
| Non-controlling interest | *162* | *-11,433* | *11,595* | *-101.4%* |
| Net income from continuing operations | *77,787* | *16,732* | *61,055* | *4.6x* |
| Profit from discontinued operations (6) | *0* | *7,389* | *-7,389* | *-100.0%* |
| **Net income** | ***77,787*** | ***24,121*** | ***53,666*** | ***3.2x*** |

| | | |
|---|---|---|
| Net interest margin, p.a. | 5.1% | 5.2% |
| Return on average equity, p.a. | 33.8% | 11.4% |
| Return on average assets, p.a. | 3.7% | 1.2% |
| Cost-to-income ratio | 25.3% | 47.2% |
| Cost of risk, p.a. (7) | 1.5% | 1.6% |

(1) insurance underwriting income (gross insurance premiums written, net change in unearned insurance premiums, ceded reinsurance share) less insurance claims incurred, net of reinsurance (insurance payments, insurance reserves expenses, commissions to agents);
(2) net gain on foreign exchange operations;
(3) net loss from financial assets and liabilities at fair value through profit or loss and net realised gain financial assets at fair value through other comprehensive income (FVTOCI);
(4) total credit loss expense, including credit loss expense on loans to customers, amounts due from credit institutions, debt securities at amortized cost and at FVTOCI and other assets;
(5) including loss from impairment of non-financial assets of KZT 30.3bn;
(6) net income of Altyn Bank from 1 January 2018 to 25 April 2018;
(7) previously in consolidated reports recoveries of provisions on KKB loans created before the acquisition of KKB by Halyk (5 July 2017) were reflected in other non-interest income. As per paragraph 5.5.14 of IFRS 9, starting from 3Q these recoveries of provisions are being reclassified as an impairment gain and recognized as reduction of credit loss expenses. Therefore, cost of risk for Q1 and Q2 2018 were recalculated taking into account such recoveries of provisions.

**Net income** increased to KZT 77.8bn for 3Q 2018 compared to KZT 24.1bn for 2Q 2018 mainly as a result of lower operating and income tax expenses.

Compared with 2Q 2018, **net interest income** decreased by 5.8% to KZT 84.8bn, due to placement of released USD liquidity into interest free correspondent account with the NBK as a result of NBK swap redemption for KZT 300bn in July 2018. Previously, this liquidity was invested in high-yield KZT NBK notes. As a result of decrease in net interest income, **net interest margin** decreased to 5.1% p.a. for 3Q 2018 compared to 5.2% p.a. for 2Q 2018.

**Cost of risk** on loans to customers is at 0.9% for 9M 2018 being a normalized level in line with the Bank's expectation.

**Fee and commission income** increased by 4.8% compared to 2Q 2018 mainly as a result of growing volumes of transactional banking.

**Other non-interest income** increased by 9.8% to KZT 44.2bn for 3Q 2018 vs. KZT 40.2bn for 2Q 2018 mainly as a result of positive revaluation of swap with the NBK due to increase of KZT forward interest rates in 3Q 2018. The increase was partially offset by decrease of other income from banking activities due to reclassification of the recoveries of provisions on KKB loans created before the acquisition of KKB by Halyk (5 July 2017).

**Operating expenses** (including loss from impairment of non-financial assets) decreased by 45.7% to KZT 35.3bn vs. KZT 65.0bn for 2Q 2018. This was mainly as a result of KZT 30.3bn expense related to impairment of the Bank's property, investment assets and assets held for sale in 2Q 2018. In 3Q 2018 there was no major impairment of non-financial assets.

The Bank's **cost-to-income** ratio decreased to 25.3% compared to 47.2% for 2Q 2018 on the back of lower operating expenses in 3Q 2018 vs. 2Q 2018. **Operating income** increased by 1.3% mainly on the back of increase in other non-interest income, partially offset by lower net interest income.

## Statement of financial position review

KZT mln

| | | | | Change YTD, % | | Change, Q-o-Q | |
|---|---|---|---|---|---|---|---|
| | 30-Sep-18 | 30-Jun-18 | 31-Dec-17 | abs | % | abs | % |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Total assets** | **8,389,875** | **8,273,906** | **8,857,781** | **-467,906** | **-5.3%** | **115,969** | **1.4%** |
| Cash and reserves | 1,803,679 | 1,851,442 | 1,891,587 | -87,908 | -4.6% | - 47,763 | -2.6% |
| Amounts due from credit institutions | 71,804 | 76,537 | 87,736 | -15,932 | -18.2% | - 4,733 | -6.2% |
| T-bills & NBK notes | 2,026,220 | 1,883,167 | 1,878,870 | 147,350 | 7.8% | 143,053 | 7.6% |
| Other securities & derivatives | 684,170 | 679,343 | 831,531 | -147,361 | -17.7% | 4,827 | 0.7% |
| *Gross loan portfolio** | 3,614,422 | 3,591,732 | 3,568,263 | 46,159 | 1.3% | 22,690 | 0.6% |
| *Stock of provisions*** | - 354,341 | - 351,758 | - 317,161 | -37,180 | 11.7% | - 2,583 | 0.7% |
| Net loan portfolio | 3,260,081 | 3,239,974 | 3,251,102 | 8,979 | 0.3% | 20,107 | 0.6% |
| Assets held for sale | 68,545 | 121,296 | 552,405 | -483,860 | -87.6% | - 52,751 | -43.5% |
| Other assets | 475,376 | 422,147 | 364,550 | 110,826 | 30.4% | 53,229 | 12.6% |
| **Total liabilities** | **7,411,998** | **7,384,251** | **7,923,324** | **-511,326** | **-6.5%** | **27,747** | **0.4%** |
| Total deposits, including: | 6,068,200 | 6,088,847 | 6,131,750 | -63,550 | -1.0% | -20,647 | -0.3% |
| *retail deposits* | 3,247,252 | 3,245,227 | 3,104,249 | 143,003 | 4.6% | 2,025 | 0.1% |
| *term deposits* | 2,848,028 | 2,792,407 | 2,691,886 | 156,142 | 5.8% | 55,621 | 2.0% |
| *current accounts* | 399,224 | 452,820 | 412,363 | -13,139 | -3.2% | -53,596 | -11.8% |
| *corporate deposits* | 2,820,948 | 2,843,620 | 3,027,501 | -206,553 | -6.8% | -22,672 | -0.8% |
| *term deposits* | 1,229,160 | 1,173,827 | 1,705,971 | -476,811 | -27.9% | 55,333 | 4.7% |
| *current accounts* | 1,591,788 | 1,669,793 | 1,321,530 | 270,258 | 20.5% | -78,005 | -4.7% |
| Debt securities | 895,042 | 861,097 | 962,396 | -67,354 | -7.0% | 33,945 | 3.9% |
| Amounts due to credit institutions | 161,416 | 155,978 | 255,151 | -93,735 | -36.7% | 5,438 | 3.5% |
| Liabilities directly associated with assets classified as held for sale | 0 | 0 | 334,627 | -334,627 | -100.0% | 0 | 0 |
| Other liabilities | 287,340 | 278,329 | 239,400 | 47,940 | 20.0% | 9,011 | 3.2% |
| **Equity** | **977,877** | **889,655** | **934,457** | **43,420** | **4.6%** | **88,222** | **9.9%** |

As of 30 September 2018, **total assets** decreased by 5.3% vs. YE 2017 mainly due to the sale of 60% in Altyn Bank on 24 April 2018, followed by deconsolidation of its assets and liabilities from the Bank's balance sheet. Total assets increased by 1.4% vs. the end of 2Q 2018 mainly as a result of positive revaluation of debt securities issued and increase in retained earnings in 3Q 2018.

Compared with end of 2Q 2018, **loans to customers** increased by 0.6% on a gross basis and 0.6% on a net basis. The increase in loan growth was offset by major loan repayments by corporate clients in 3Q 2018.

Halyk Bank's **90-day NPL ratio** was 10.9% compared to aggregate Halyk Bank and KKB's 90-day NPL ratio of 12.3% as at the end of 2Q 2018. The decrease compared to the end of 2Q 2018 was mainly due to write-off and repayment of problem indebtedness.

**Allowances for loan impairment** increased by 0.7% compared to the end of 2Q 2018, mainly as a result of additional provisions created against impaired loans and revaluation of provisions created on FX-denominated part of a loan portfolio.

**Deposits of legal entities and individuals** decreased by 0.8% and increased by 0.1%, respectively, compared to the end of 2Q 2018, mainly due to partial withdrawal of funds by the Bank's corporate customers to finance their ongoing needs. As at 30 September 2018, the share of corporate KZT deposits in total corporate deposits was 49.7% compared to 53.3% as at 30 June 2018 and 48.3% as at YE 2017, whereas the share of retail KZT deposits in total retail deposits was 41.4% compared to 44.5% as at 30 June 2018 and 40.7% as at YE 2017.

**Amounts due to credit institutions** increased by 3.5% vs. the end of 2Q 2018 due to growth in loans from DAMU within its programmes and increase in balances on correspondent accounts as at 30 September 2018 in the ordinary course of business. As at 30 September 2018, 78.2% of the Bank's obligations to financial institutions were represented by loans from KazAgro national management holding, DAMU development fund, Development Bank of Kazakhstan drawn in 2014–2017 within the framework of government programmes supporting certain sectors of economy.

**Debt securities issued** increased by 3.9% vs. the end of 2Q 2018, mainly due to revaluation of FX-denominated Eurobonds due to increase in FX/KZT exchange rate over the third quarter. As at the date of this press-release, the Bank's debt securities portfolio was as follows:

| Description of the security | Nominal amount outstanding | Interest rate | Maturity Date |
|---|---|---|---|
| Eurobond | USD 500 mln | 7.25% p.a. | January 2021 |
| Eurobond | USD 750 mln | 5.5% p.a. | December 2022 |
| Local bonds placed with the Unified Accumulative Pension Fund | KZT 100 bn | 7.5% p.a. | November 2024 |
| Local bonds placed with the Unified Accumulative Pension Fund | KZT 131.7 bn | 7.5% p.a. | February 2025 |
| Local bonds | KZT 94.2 bn | 8.75% p.a. | January 2022 |
| Local bonds | KZT 59.9 bn | 8.4% p.a. | November 2019 |
| Subordinated coupon bonds | KZT 101.1 bn | 9.5% p.a. | October 2025 |
| Subordinated coupon bonds | KZT 3.5 bn | Inflation indexed (currently 7.8% p.a.) | April 2019 |

Compared with the end of 2Q 2018 total equity increased by 9.9% due to net profit earned by the Bank during 3Q 2018.

The Bank's capital adequacy ratios were as follows*:

| | 01.10.2018 | 01.07.2018 | 01.04.2018 | 01.01.2018 | 01.10.2017 |
|---|---|---|---|---|---|
| *Capital adequacy ratios, unconsolidated:* | | | | | |
| | | | Halyk Bank | | |
| K1-1 | 19.4% | 20.6% | 21.7% | 21.5% | 20.2% |
| K1-2 | 19.4% | 20.6% | 21.7% | 21.5% | 20.2% |
| K2 | 21.6% | 20.6% | 21.6% | 21.4% | 20.1% |
| | | | KKB, from period of ownership | | |
| K1-1 | | 20.8% | 21.3% | 18.0% | 13.1% |
| K1-2 | | 20.8% | 21.3% | 19.9% | 15.0% |
| K2 | | 28.6% | 28.9% | 26.9% | 10.3% |
| *Capital adequacy ratios, consolidated:* | | | | | |
| CET | 17.8% | 17.2% | 18.1% | 16.9% | 15.4% |
| Tier 1 capital | 17.8% | 17.2% | 18.1% | 16.9% | 15.8% |
| Tier 2 capital | 19.9% | 19.1% | 20.0% | 18.9% | 17.8% |

** minimum capital adequacy requirements: k1 – 9.5%, k1-2 – 10.5% and k2 – 12.0%, including conservation buffer of 3% and systemic buffer of 1% for each of these ratios.*

The condensed interim consolidated financial information for the nine months ended 30 September 2018, including the notes attached thereto, are available on Halyk Bank's website: https://halykbank.kz/investoram/ifrs_reports2.

A 9M/3Q 2018 results webcast will be hosted at 1:00 p.m. GMT/8:00 a.m. EST on Tuesday, 20 November 2018: http://halyk201118-live.audio-webcast.com.

*About Halyk Bank*

Halyk Bank is Kazakhstan's leading financial services group, operating across a variety of segments, including retail, SME & corporate banking, insurance, leasing, brokerage and asset management. Halyk Bank has been listed on the Kazakhstan Stock Exchange since 1998 and on the London Stock Exchange since 2006.

In July 2017, the Bank purchased majority stake in Kazkommertsbank JSC – the second largest Bank in Kazakhstan by total assets – and merged it fully in July 2018.

With total assets of KZT 8,389.9 billion as at 30 September 2018, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 656 branches and outlets across the country. The Bank also operates in Georgia, Kyrgyzstan, Russia and Tajikistan.

*For more information on Halyk Bank, please visit https://www.halykbank.kz*

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